October 2009 NTA Release

1. Details of Performance and Net Asset Backing at Month end

The net asset backing ("**NTA**") of Fat Prophets Australia Fund Limited ("**Fat Fund**") as at 30 October 2009 was **$1.1451 per share** on a before tax basis, calculated in accordance with ASX Listing Rule 19:12, and represents a decline **of 0.43%** over the month. By comparison, the Fat Fund's benchmark, the S&P/ASX 300 Accumulation Index **decreased 2.07%** over the month.

After adjusting for the impact of taxation on both realised and unrealised gains, the Fat Fund's after tax NTA at the end of October 2009 was **$1.1130 per share**.

2. Performance Commentary

The major influences on the Fat Fund's performance versus the benchmark during the month of October 2009 were as follows (* denotes acquired during month):

Positive Influences			**Negative Influences**		
Company	***% move***	***Position***	***Company***	***% move***	***Position***
Macquarie Group	-15%	Underweight	Altium	-26%	Overweight
Beach Petroleum	6%	Overweight	Magellan Financial	-9.6%	Overweight
BT Investment Mgmt.	8.6%	Overweight	Mirvac Group	-11%	Overweight
Woodside Pet.	-8.5%	Underweight	Sedgman	-13%	Overweight
Westpac	0.5%	Overweight	Bravura	-11.5%	Underweight

As we have discussed previously, the equity markets continue to be in a "sweet spot". The major developed economies continue to be primed with stimulus, and as with all parties, the music rarely stops until the punchbowl is taken away. Given the rhetoric from most central bankers (baring Australia), this will unlikely be anytime soon. The coordinated policy of reflation is unprecedented and unfortunately, so may be the consequences. We are in uncharted territory and therefore we continue to remain cautious.

One however cannot dispute the improvement in economic data, consider;

- Australian Consumer confidence hitting back to pre-crisis levels of July 2007
- Australian employment numbers that were expected to fall in October by 10,000 actually increased 24,500. This is in addition to September's massive increase in employment by 40,600.
- US GDP in the third quarter of 2009 increased at an annual rate of 3.5%!
- The percentage of people in the US with negative equity in their homes declined to 21% from 23% in October.
- Unemployment in Australia and the US continues to improve
- Signs of stabilisation are emerging in US house prices within the medium to lower segment of the market – which is the ground zero of the sub prime crisis.

And the list goes on….The US consumer has always been of paramount importance to the world's largest economy and encouragingly the upturn in US GDP over the last quarter primarily reflects an improvement in personal consumption expenditure. This on the face of it at least, is all rather encouraging.

The problem is, as many market commentators are starting to observe, is that if interest rates are kept for too long at 'emergency' setting levels, the underlying money supply expands under an injection of excess liquidity, ultimately leading to a lower currency, inflation and asset price bubbles.

Fiscal stimulus combined with continuing quantitative easing measures are now entering a new and dangerous phase in our view. Only last week the Federal Reserve, the European Central Bank and the Bank of England moved to unwind some of the emergency measures taken at the height of the financial crisis. Further fuelling the surge in asset prices globally since March is the weak USD and the massive carry trade taking place with investors using the USD as the funding currency to buy higher yielding assets; namely equities, oil, commodities and emerging market assets.

Today, the world seems short US dollars and just about long of every other asset class. To not question where this imbalance will lead is potentially very dangerous. When the carry trade reverses, the shock to equity markets could be quite brutal.

But while the US and other OECD economies continue to suffer from a bad economic cold, Australia is in robust shape. The local equity market remains strong and is further underpinned by foreign investors' attraction to the strong Aussie dollar, our well capitalised banks and exposure to resources/China. We should highlight however, that many of these foreign investors are playing catch up, having missed the tremendous out-performance of the Australian market. And many still today remain underweight Australian equities.

The Chinese economy continues to improve on a number measures, most recently was Chinese industrial production which grew some 16% year on year in October and is up from 14% in September. Notably the export component of this number was down which tells us that China's own massive domestic stimulus is having its desired effect. Needless to say activity in WA is becoming nothing short of frenetic and should benefit resource stocks across the board. As financials have significantly out-performed resources over the last 7 months there is now evidence of some switching into this space as data out of China proves to be quite strong.

As we pressed at our recent AGM, Fat Fund shares continue to trade at a deep discount to NTA of approximately 20% which we believe is unwarranted. As such, in October the Fat Fund was very active on the buyback and benefited by purchasing some 1.1% of it's issued shares at a circa 20% discount to NTA.

Gold has performed strongly in recent weeks, helped no doubt by the purchase of 200 tonnes of gold from the IMF gold by the Indian Central Bank. We continue to believe that gold and other precious metals will perform strongly in an environment where most central banks a treating their respective currencies like monopoly money. We sold our position in Mundo Minerals – an emerging gold producer in Brazil. Lack of a compliant resource statement and need to raise capital to advance one of their projects are weighing on the stock in our view, and as such Mundo's share price is not correlating with the gold price. We increased our position in Lihir Gold to compensate, and we continue to believe that Australia's second largest gold company is materially undervalued relative to international peers. We continue to search for further opportunities within the precious metals sector. The Fat Fund has been with the new manager since the 1st of November and as a result a number of positions are being reviewed and we will update you on any changes in the next release.

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3. Top 15 Holdings at 30 October 2009

Company	Symbol	% Weighting
BHP Billiton	BHP	11.99
Westpac	WBC	11.31
Commonwealth Bank	CBA	8.57
National Australia Bank	NAB	8.29
ANZ Bank	ANZ	6.19
QBE Insurance	QBE	4.08
Woolworths	WOW	3.31
Wesfarmers	WES	3.06
Rio Tinto	RIO	2.88
CSL	CSL	2.66
Telstra	TLS	2.14
Beach Petroleum	BPT	1.94
Premier Investments	PMV	1.78
Oceania Capital	OCP	1.78
Newcrest	NCM	1.63

Angus Geddes & Steve O'Hanna
Fat Prophets Funds Management Australia 13 November 2009